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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

----In the Matter of ---- PUBLIC UTILITIES COMMISSION Instituting a Proceeding to Investigate the Issues and Requirements Raised by, and Contained in, Hawaii Revised Statutes 486H, as Amended.	DOCKET NO. 05-0002

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

DATED: Fairfax, Virginia, June 17, 2005

Thomas W. O'Connor
Project Manager
ICF Consulting, LLC
9300 Lee Highway
Fairfax, Virginia 22031

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ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-1. Reference (Ref): Report, pp. 17-19.

"The Report states that alternative sources which are reasonable fits include the Far East and the Caribbean and that the Caribbean and Singapore markets represent likely potential sources of gasoline into Hawaii. Please provide the source identity, number and sizes of gasoline cargoes supplied from the Far East and Caribbean locations to the US West Coast by year from 1999-2004. "

a. For the historical period of time examined in the Report, how many shipments of 30,000 Metric Tonnes ("MT") of refined Singapore gasoline to Hawaii have actually occurred? For any shipments identified, please provide the size(s) of such shipments.
b. For the historical period of time examined in the Report, how many shipments of 30,000 MT of refined Caribbean gasoline to Hawaii have actually occurred? For any shipments identified, please provide the sizes of such shipment(s).

Response:

The number of imported gasoline cargoes from the Far East and Caribbean into the US West Coast (California, Oregon and Washington) from 1999-2004 is noted below. The number of imported gasoline cargoes from the Far East and Caribbean into the US West Coast (California, Oregon and Washington) from 1999-2004 is 176, with sizes ranging from 3 Mbbls to 330 Mbbls in volume. Location sources include: Brazil, Colombia, Panama, Virgin Islands, Venezuela, China, India, Japan, Malaysia, Singapore, Thailand, Taiwan, and Korea. Detailed data is in the Attachment to IR-1.

Responses to sub-questions are:

a. There were no shipments greater than 30,000 MT from Singapore into Hawaii over that period.
b. There were no shipments greater than 30,000 MT from the Caribbean into Hawaii over that period.

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ATTACHMENT TO IR-1

U.S. West Coast (CA, OR, WA) Total Volume Gasoline Imports (Mbbls)								
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2002	2003	2004	Grand Total
Caribbean	BRAZIL						137	137
	COLOMBIA			206				206
	PANAMA				4			4
	VENEZUELA		290					290
	VIRGIN ISLANDS, U.S.	896	508	747	339	259	330	3079
Caribbean Total		896	798	953	343	259	467	3716
Far East	CHINA	208	1149		24	1365	745	3491
	INDIA				32			32
	JAPAN	797	314	292				1403
	MALAYSIA				25			25
	SINGAPORE	905		1029	2039	302	91	4366
	TAIWAN					266	724	990
	THAILAND	228			60			288
	KOREA	1560	133	2654	1679	1734	768	8528
Far East Total		3698	1596	3975	3859	3667	2328	19123
Total Number of Gasoline Shipments to U.S. West Coast (CA, OR, WA)								
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2002	2003	2004	Grand Total
Caribbean	BRAZIL						1	1
	COLOMBIA			1				1
	PANAMA				1			1
	VENEZUELA		2					2
	VIRGIN ISLANDS, U.S.	7	3	4	3	2	1	20
Caribbean Total		7	5	5	4	2	2	25
Far East	CHINA	2	2		1	9	9	23
	INDIA				4			4
	JAPAN	6	1	3				10
	MALAYSIA				2			2
	SINGAPORE	4		4	14	2	1	25
	TAIWAN					2	8	10
	THAILAND	2			1			3
	KOREA	10	2	20	19	15	8	74
Far East Total		24	5	27	41	28	26	151

Hawaii Total Volume Gasoline Imports (Mbbls)							
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2003	2004	Grand Total
Caribbean	VIRGIN ISLANDS, U.S.	147					147
Caribbean Total		147					147
Far East	JAPAN	687	80				767
	TAIWAN				273		273
	KOREA	399	480	68	164	1	1112
Far East Total		1086	560	68	437	1	2152

Total Number of Gasoline Shipments to Hawaii							
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2003	2004	Grand Total
Caribbean	VIRGIN ISLANDS, U.S.	1					1
Caribbean Total		1					1
Far East	JAPAN	9	2				11
	TAIWAN				2		2
	KOREA	5	3	1	1	1	11
Far East Total		14	5	1	3	1	24

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Tesoro-IR-2. Ref: Report, pp. 20-22.

"Please provide the source identity, number, and sizes of the cargoes of gasoline supplied to the US West Coast from locations other than the Far East or the Caribbean locations by year from 1999-2004."

a. For the historical period of time examined in the Report, how many shipments of 30,000 MT of refined gasoline from locations other than the Far East or the Caribbean to the West Coast have actually occurred? For any shipments identified, please provide the size(s) of such shipments.
b. For the historical period of time examined in the Report, how many shipments of 30,000 MT of refined gasoline from locations other than the Far East or the Caribbean to Hawaii have actually occurred? For any shipments identified, please provide the size(s) of such shipments.

Response:

Other locations providing imported gasoline into the U.S. West Coast include: Algeria, Australia Belgium, Canada, Croatia, Egypt, Finland, Germany, Italy, Netherlands, Netherlands Antilles, Portugal, Russia, Saudi Arabia, South Africa, Spain, United Arab Emirates, United Kingdom, with 202 cargoes of sizes ranging from 1 Mbbls to 598 Mbbls volume from 1999-2004. Please see Attachment 1 to IR-2 for detail.

Response to sub-questions:

a. There were 21 shipments of 30,000 MT cargoes or greater to the West Coast from locations other than the Far East or Caribbean over the period.

b. There were not any shipments of 30,000 MT cargoes or greater of gasoline into Hawaii from locations other than the Far East or Caribbean over the period.

ICF has no data that details shipments from the Mainland states into Hawaii over this period. Data below.

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ATTACHMENT TO IR-2

U.S. West Coast (CA, OR, WA) Total Volume Gasoline Imports (Mbbls)								
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2002	2003	2004	Grand Total
Non-Far East & Non-Caribbean	ALGERIA				27			27
	AUSTRALIA	455		281			209	945
	BELGIUM	393		18	10		131	552
	CANADA	82	2299	811	533	393	1651	5769
	CROATIA				55			55
	EGYPT			221	33			254
	FINLAND	2255	226	1109		482		4072
	GERMANY, FR(W)	232			92			324
	ITALY			14				14
	NETHERLANDS	426		751	530		273	1980
	NETHERLANDS ANTILLES			376				376
	PORTUGAL			38	81		12	131
	RUSSIA			99	95			194
	SAUDI ARABIA	550		6		1936	346	2838
	SOUTH AFRICA					322		322
	SPAIN			4				4
	UNITED ARAB EMIRATES			322	150			472
	UNITED KINGDOM	1404	150	334			225	2113
Non-Far East & Non-Caribbean Total		5797	2675	4384	1606	3133	2847	20442

Total Number of Gasoline Shipments to U.S. West Coast (CA, OR, WA)								
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2002	2003	2004	Grand Total
Non-Far East & Non-Caribbean	ALGERIA				2			2
	AUSTRALIA	3		1			2	6
	BELGIUM	3		1	4		1	9
	CANADA	4	47	7	5	7	13	83
	CROATIA				1			1
	EGYPT			1	2			3
	FINLAND	17	1	11		1		30
	GERMANY, FR(W)	1			2			3
	ITALY			1				1
	NETHERLANDS	4		5	6		4	19
	NETHERLANDS ANTILLES			1				1
	PORTUGAL			1	4		2	7
	RUSSIA			1	4			5
	SAUDI ARABIA	2		1		7	3	13
	SOUTH AFRICA					1		1
	SPAIN			1				1
	UNITED ARAB EMIRATES			1	1			2
	UNITED KINGDOM	10	1	1			3	15
Non-Far East & Non-Caribbean Total		44	49	34	31	16	28	202

Hawaii Total Volume Gasoline Imports (Mbbls)							
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2003	2004	Grand Total
Non-Far East & Non-Caribbean	AUSTRALIA					60	60
	CANADA		95	90			185
	MALTA		55				55
	UNITED KINGDOM				202		202
Non-Far East & Non-Caribbean Total			150	90	202	60	502

Total Number of Gasoline Shipments to Hawaii							
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2003	2004	Grand Total
Non-Far East & Non-Caribbean	AUSTRALIA					1	1
	CANADA		2	1			3
	MALTA		1				1
	UNITED KINGDOM				2		2
Non-Far East & Non-Caribbean Total			3	1	2	1	7

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Tesoro-IR-3. Ref: Report, pp. 23-25.

"Does the Report consider that there is a West Coast market alternative to Hawaii for an importer of Singapore and Caribbean cargoes?"

a. If yes, what is the impact of the West Coast market alternative on an importer's willingness to ship to Hawaii?
b. If no, please explain why not.

Response:

The report does not consider that there is a West Coast alternative market for an importer (or exporter) of Singapore and Caribbean gasoline.

b) The reason is that ICF evaluated pricing benchmarks to determine import parity into Hawaii; the report was not intended to make or predict economic choices or operational alternatives.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

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Tesoro-IR-4. Ref: Report, pp. 20-22.

"Please specify the number, identity, and location of all facilities in Hawaii that can currently accommodate ships and gasoline cargoes of 30,000 MT."

Response:

ICF is aware that the Aloha/USRP facility at Barber's Point can accommodate cargoes of 30 MT gasoline, and ICF believes the Chevron and Tesoro refineries also have tankage sufficient to receive cargoes.

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Tesoro-IR-5. Ref: Report, pp. 19, 65.

"Why was the RON92 index used in the base calculation rather than the RON95 index? Please provide details of the Singapore RON and MON specifications used to determine the use of the RON92 index to meet the Hawaii requirement for a minimum AKI of 87 octane. "

Response:

Platt's specifications only list an RON octane. ICF's assessment that this grade mirrored 87 Rd is based on ICF's perspective that a normal spread between RON and MON would be 9-11 octane. This would appear to reasonably approximate the 87 Rd quality used in Hawaii. Use of the 95 RON index appeared to ICF to overstate the quality of the gasoline being priced for Hawaii baseline, and result in a higher than competitive benchmark for 87 Rd.

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Tesoro-IR-6. Ref: Report, pp. 18-19, 24, 30-34.

"In preparing its Report, did ICF conduct any analysis of the types of crude that are processed by refineries in Singapore and the Gulf Coast?"

a. If yes, what were the results of such analysis with respect to weight and sulphur content of the crudes that are processed in Singapore and the Gulf Coast? Please provide documentation of any and all ICF analyses of sulphur contents and the specifications used in the Report with respect to the sulphur content of crudes processed in Singapore and the Gulf Coast.
b. If no, please explain why not.

Response:

ICF did not analyze the types of crudes processed in the US Gulf Coast, Caribbean, or Singapore refineries. The reason ICF did not is that the basis for the import parity calculation is the gasoline market in those regions, not the crude market, or the degree of complexity of the refineries in those areas.

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Tesoro-IR-7. Ref: Report, pp. 17-27, 30-34.

"Please provide a breakdown of the crude types by percentage used in the Far East (including Singapore) and Caribbean locations, the FOB prices, the discounts or premiums to the FOB prices and the freight assessments to move them to the respective refineries. Please provide the data on a year by year basis from 1999-2004. If the information requested was not considered by ICF, please explain why it was not considered."

Response:

The information requested was not developed by ICF, except for the estimates made for Report Exhibits 3.4 through 3.6. "Wholesale Margins vs Parity & Crudes 2-17-05".

ICF did this analysis only to demonstrate that the gasoline import parity proposed by ICF would reflect reasonable gasoline values vs. crude compared to ANS or other typical Hawaii crude types gasoline margins in other markets.

Balance of response is Redacted as it contains Tesoro specific comments.
[redacted]

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Tesoro-IR-8. Ref: Report, pp. 17-27, 30-34.

"Please provide a breakdown of the crude types used by percentage in assessing the crude costs in a Hawaii refinery, the FOB prices, the discounts or premiums to the FOB prices and the freight assessments to move them to Hawaii. Please provide the data on a year by year basis from 1999-2004. If the information requested was not considered by ICF, please explain why it was not considered."

Response:

The information requested was not developed by ICF, except for the estimates made for Report Exhibits 3.4 through 3.6. These data can be found in Spreadsheet "Wholesale Margins vs Parity & Crudes 2-17-05".

ICF did this analysis only to demonstrate that the gasoline import parity proposed by ICF would reflect reasonable gasoline values vs. crude compared to ANS or other typical Hawaii crude types gasoline margins in other markets.

Balance of response is Redacted as it contains Tesoro specific comments.

[redacted]

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Tesoro-IR-9. Ref: Report, pp. 17-27, 30-34.

"If Tapis and like crudes were not incorporated into the assessment of Hawaii crude costs, please explain why?"

Response:

As noted in IR-8, ICF did not analyze Hawaii crude costs, although ICF did estimate a crude mix into the refineries. Tapis was not specifically analyzed. The reason is that the crude costs into Hawaii, or other refining centers such as the US Gulf Coast, are not, by themselves, indicative of product costs or prices. In general, California has the highest wholesale prices in the US, and the lowest crude cost. As you know, the very high refinery complexity in Hawaii creates high refining costs, and the ability to run very cheap crude. The product prices in California are driven by a very tight supply/demand situation.

The purpose of the comments is that the refinery crude types processed are one factor, but not necessarily indicative of anything impacting the gas cap formula logic.

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Tesoro-IR-10. Ref: Report, pp. 17-19, 30-34.

"Have any adjustments been made in the Report's recommended baseline prices to account for the differences in gravity and sulphur between the types of crude that are processed in Singapore and the Gulf Coast in comparison to Hawaii?

a. If yes, please explain the adjustments that were made.
b. If no, please explain why no adjustments were made.

Response:

No adjustments been made in the Report's recommended baseline prices to account for the differences in gravity and sulphur between the types of crude that are processed in Singapore and the Gulf Coast in comparison to Hawaii.

As noted in IR-9, crude costs into Hawaii, or other refining centers such as the US Gulf Coast, are not, by themselves, indicative of product costs or prices. In general, California has the highest wholesale prices in the US, and the lowest crude cost. As you know, the very high refinery complexity in Hawaii creates high refining costs, and the ability to run very cheap crude. The product prices in California are driven by a very tight supply/demand situation.

The purpose of the comments is that the refinery crude types processed are one factor, but not necessarily indicative of anything impacting the gas cap formula logic.

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Tesoro-IR-11. Ref: Report, pp. 17-19, 30-34.

"Does the report contain an adjustment to the baseline price to account for the higher cost of the sweet crudes used in Hawaii refineries versus the lower costs of crudes used in Singapore and the Gulf Coast? "

a. If yes, please explain the nature and rationale of the adjustment.
b. If no, please explain why no adjustments were made.

Response:

The report does not contain an adjustment to the baseline price to account for the higher cost of the sweet crudes used in Hawaii refineries versus the lower costs of crudes used in Singapore and the Gulf Coast. As noted in IR-9, crude costs into Hawaii, or other refining centers such as the US Gulf Coast, are not, by themselves, indicative of product costs or prices.

Moreover, ICF did evaluate imported crude into Hawaii, and also (based on refinery run reports in 2003 and 2004) estimated ANS processed. ICF estimated that the average weight (gravity) of Hawaii crude runs is about 33 API, and sulfur content 0.3-0.4 wt % sulfur. The Hawaii gravity is reasonably close to ICF's estimate of the US average (30-31 API), and the sulfur is significantly lower. This overall mix into Hawaii is not, in ICF's view, materially different than Singapore refiners and may be cheaper than Taiwan or Korea refiners.

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ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

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Tesoro-IR-12. Ref: Report, pp. 23-25.

"Please explain why the Report's import parity formula does not address financing; administrative costs; and inventory carrying costs, on the vessel and in terminal storage? "

a. Is ICF willing to consider recommending such costs to the PUC in the import parity formula?
   a. If not, why not?
b. If such financing, administrative costs, and inventory carrying costs were to be considered by ICF, please explain how they would be calculated and factored into the import parity formula.
c. Does the Report consider the costs of risk management, hedging, futures, insurance or other costs of managing business in a gasoline price cap environment?
   a. If not, why not?
   b. Is ICF willing to consider recommending such costs to the PUC?

Response:

a) ICF is willing to consider recommending some of the subject costs to the PUC in the import parity formula. ICF's report did not address financing, administrative, or inventory carrying costs in the import parity determination because, based on ICF experience, these factors are normally not part of a decision process to determine the economics of a gasoline cargo movement between locations.

   However, since the analysis for Hawaii was focused on assessing the ongoing import parity of gasoline into Hawaii, a case could be made that the process would require an additional volume of inventory "on the water" because of the import assessment. ICF is not persuaded that additional "in terminal" inventory would be needed, as the imported volume in terminals would in effect replace refinery inventory (in addition to finished gasoline, there would be no inventory tied up in component blending tankage either). Administrative costs, in ICF's view, would be minimal.

b) The calculation method to determine the cost would involve an assessment of interest rate and wholesale gasoline price to determine the carrying cost. Financing and administrative costs would be much smaller (ICF believes most companies importing into Hawaii would not require posting a letter of credit to back a purchase). To keep the overall analysis of import parity with the minimum number of moving parts, ICF would suggest that this factor be determined and updated annually.

   A typical inventory carry cost in today's market would be estimated to be .35 cpg. The following assumptions were used to calculate this:

   LIBOR rate: 4% (actual current 6 MO LIBOR rate is 3.540)
   Wholesale Gasoline Price: $1.50/gal

Time on Water: 3 weeks

Calculation: (3 weeks/52 weeks)*.04*1.50*100= .35 cpg

c) ICF did not consider the use of risk management, hedging or futures in a gas cap environment.
   a. ICF believes that the implementation of gas caps in Hawaii based on the USGC and Singapore markets represents an opportunity for Hawaii refiners and marketers to use risk management tools for gasoline that may not have existed without the linkage to the USGC and Singapore markets. While there may be some costs (for brokerage or OTC executions), these costs are business decisions that the parties would make with some expectation of a desired result (eg margin assurance, price protection, etc). Because of this, ICF believes these costs should not be included.

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Tesoro-IR-13. Ref: Report, p. 18.

"The Report states that the difference in quality characteristics of gasoline from Singapore compared with gasoline in Hawaii can be offsetting. ICF believes that the net effects of these quality anomalies are small."

a. Please explain and provide the methodology, data, inputs and calculations used by ICF to determine that the difference in quality characteristics can be offsetting.

Response:

Report Exhibit 2.2 identifies the main characteristics that ICF considered. The intent was to demonstrate that the Singapore specs behind the Platt's quotes are reasonably approximate to Hawaii. The potential sources of gasoline for Hawaii include other areas in the Far East such as Korea and Taiwan, and ICF was seeking to identify a pricing basis for the region.

ICF does not have data that indicates what the average sulfur or benzene content is of the gasoline produced in Singapore or other Far East markets. ICF would anticipate that the RVP of gasoline in these areas are at or near specification, similar to the US, due to the high incentive to upgrade butane to gasoline. ICF believes the RVP uplift from Singapore to Hawaii grade (about 1.5 RVP) would tend to offset the sulfur and benzene actions that may be necessary to meet US grade specifications. There were no calculations done to demonstrate this, since each refinery is different and the use of macro models to generate relative costs would have resulted in higher project cost and timing.

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ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

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Tesoro-IR-14. Ref: Report, pp. 17-19.

"Does ICF conclude that there is a difference in quality characteristics of gasoline from the Caribbean compared with gasoline in Hawaii?'

a. If yes, does ICF believe that the difference in quality characteristics can be offsetting?
b. Please explain and provide the methodology, data, inputs and calculations used by ICF to determine that the difference in quality characteristics can be offsetting.
c. If no, please explain and provide the methodology, data, inputs, and calculations used by ICF to determine that there is no difference in quality characteristics of gasoline from the Caribbean compared with gasoline in Hawaii.

Response:

a) ICF does not believe that there is a difference in quality characteristics between the Caribbean market and Hawaii. There are two reasons: first, the Caribbean refiners in Venezuela, St Croix, etc. are currently exporting gasoline into the US. These refiners could meet Hawaii specifications much as they meet other regional US specifications. Second, the price upon which the Caribbean price is based is the US Gulf Coast waterborne price, which other than seasonal variations in RVP, is aligned with Hawaii.
b) N/A
c) Since the USGC price quality basis is similar to Hawaii, there is no data or methodology beyond the ICF rationale.

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Tesoro-IR-15. Ref: Report, p. 18.

"Does the Report consider the costs to a refinery in Singapore and the Caribbean to produce gasoline that fully aligns with Hawaii's requirements for conventional gasoline?"

a. If yes, please quantify those costs separately for Singapore and the Caribbean.
b. If no, please explain why not?
c. Please specify the number and identity of the refineries in the Caribbean, Far East and Singapore that can currently produce gasoline to meet the US EPA standard of 30 ppm sulphur in 2006? Please also provide the monthly production capability of each such refinery.

Response:

a) ICF considered these costs, and as noted in the IR-13 and IR-14 responses, ICF does not believe there is a cost basis to adjust the Caribbean price, or the Singapore price for quality with current US gasoline specifications. ICF did adjust the Caribbean (USGC basis) premium grade for Hawaii's 92 octane versus the 93 price quote in Platt's, and Singapore's 95 RON Midgrade (90 Rd) to Hawaii's 89 Rd Midgrade. These adjustments were based on market price and octane difference, not refinery cost.
b) N/A
c) ICF is not aware of specific refinery capabilities. This would require analysis by each refiner. ICF could estimate which refiners may be able to meet specifications based on a specific refinery model and access to crude inputs and product requirements, but this would be extremely speculative, costly and time consuming to perform.

ICF notes that future changes in the US gasoline pool for lower sulfur, and pending ethanol legislation, may be valid reasons to consider adjustments, but ICF does not see that as critical today.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

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Tesoro-IR-16. Ref: Report, pp. 20-23, 65.

"Please clarify the relationship and methodology used by ICF to calculate freight rates into Hawaii from the Far East. Please provide a detailed numerical analysis of the data supplied in Exhibit 2.7 and Exhibit 2.8."

Response:

The data provided in Exhibit 2.7 is based on typical charges for insurance and cargo losses used in the Industry based on ICF experience. The import duty used is the 52.5 cents per barrel import duty charged for gasoline into the US. The terminal cost is based on a typical terminal fee charged for discharging a vessel and holding gasoline for movement into a downstream system.

The freight cost calculations used to determine the costs in Exhibit 2.8 are shown in Spreadsheets "B2 Honolulu Landed Price v4", and "B2.5A Platt's Rate Check01-26" The analysis involves evaluating the Singapore freight market for 30 MT vessels as quoted in Platt's (Code # AAAUV00) from Singapore to the USWC (this is in Lump Sum Dollars), and then adjusting the mileage to Hawaii (Honolulu). Estimates are made for loading, discharge, and vessel speed. Other costs as detailed in Exhibit 2.7 are added.

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Tesoro-IR-17. Ref: Report, pp. 20-23, 65.

"Please clarify the relationship and methodology used by ICF to calculate freight rates into Hawaii from the Caribbean. Please provide a detailed numerical analysis of the data supplied in Exhibit 2.7 and Exhibit 2.8."

Response:

The data provided in Exhibit 2.7 is based on typical charges for insurance and cargo losses used in the Industry based on ICF experience. The import duty used is the 52.5 cents per barrel import duty charged for gasoline into the US. The Canal charge is for the Panama Canal based on 2005 rates for a 30 MT vessel. The terminal cost is based on a typical terminal fee charged for discharging a vessel and holding gasoline for movement into a downstream system.

The freight cost calculations used to determine the costs in Exhibit 2.8 are shown in Spreadsheet "B2 Honolulu Landed Price v4" and "B2.5A Platt's Rate Check01-26". The analysis involves evaluating the Caribbean freight market for 30 MT vessels as quoted in Platt's (Code #AAAUQ00) from Caribbean to the USWC (this is in $/MT), and then adjusting the mileage to Hawaii (Honolulu). Estimates are made for loading, discharge, vessel speed and Canal transit time. Other costs as detailed in Exhibit 2.7 are added.

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ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

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Tesoro-IR-18. Ref: Report, pp. 17-27, 30-33.

a. In preparing the recommendations of the report, please outline the context for establishing the bulk and import parity pricing, i.e., is it assumed that cargoes are being supplied on a spot basis by a trading company for import to Hawaii or is it assumed that a marketer in Hawaii is importing cargoes into Hawaii on a term basis via direct purchase from a refiner in one of the markets quoted?
b. Does the ICF Report contain any measures for implementation in the event of unplanned refinery downtime? If yes, please explain such measures.
   (1) If no, please explain why not?
c. In the event of such an unplanned refinery downtime event, are there any measures in the ICF Report to account for an adjustment in the price caps, consistent with the higher costs that would be incurred to provide re-supply in the International spot product market? If yes, please explain such measures.
   (1) If no, please explain why not?
d. During the time period that it would take to bring in additional supply from other sources, what would the price cap formula reflect?

Response:

a) The context for the calculation is to represent acquisition market cost of gasoline in the source region and estimated market freight to Hawaii on foreign flag vessels. It represents neither a marketer's direct purchase from a refiner (which may be isolated in one of the regions), nor a trader's flexibility to "fill" a short by selectively optimizing the lowest cost source. It is an average supply cost from the two regions.
b) There are no specific recommendations in the report in the event of unscheduled refinery downtime. It would be very debatable what "degree" of unscheduled downtime would merit special consideration. A major unplanned outage is different than a more limited outage. It is ICF's understanding that the legislation provides an opportunity (by petitioning the governor) to suspend the caps when a situation jeopardizes supply.
c) There are no measures to alter the caps in the event of unscheduled downtime, except as noted in b above. It should be mentioned that it may not necessarily be higher costs to arrange supply in the event of an outage. If the Singapore market is below the Caribbean, and supply could be arranged, even with a prompt premium it may not be higher than the import parity calculation. Plus, other markets (Korea, Taiwan, US Northwest) may be positioned to supply economically without requiring adjusting caps.
d) During the time period to arrange a cargo, the price cap formula would only change as those source markets changed.

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-19. Ref: Report, p. 21 and pp. 20-23, 65

"A United States Gulf Coast ("USGC") to Hawaii movement is about 40 percent greater in distance than a USGC to Los Angeles movement. Please explain how the difference appearing in Exhibit 2.5, p. 21 of the Report, was derived."

Response:

The difference shown in column 2 of Exhibit 2.5 (Adjust to Hawaii) reflects a comparison of the USGC to Los Angeles freight to the average distance from NYH, USGC and Los Angeles to Hawaii. This comparison was done to determine the average cost from the Legislated sources (NYH, USGC, LA) compared to the limited market data ICF had. The relatively short leg from LA to Hawaii was averaged in with the USGC and NYH legs, resulting in a relatively small adjustment to the USGC to LA data.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-20. Ref: Report, pp. 20-27.

"Did the Report base its freight calculations on ships importing gasoline to Hawaii with a backhaul factor?"

a. If yes, please explain and provide the basis, methodology, data, inputs and calculations to support ICF's conclusion that ships importing to Hawaii will backhaul and provide the backhaul factors used.
    a. Please provide the freight calculations for ships importing gasoline to Hawaii without a backhaul factor.
b. If no, please explain and confirm that ICF's freight calculations do not contain a backhaul factor.

Response:

a) N/A
b) ICF's freight calculations utilized Platt's freight rate quotes for the Caribbean and Singapore markets to the USWC. Platt's quotes represent known deals done for freight. Some of these may reflect backhaul opportunities from the USWC. The freight adjustment to move gasoline to Hawaii therefore assumes a similar representation of backhauls. While Hawaii typically will export cargoes of naphtha to the Far East, other backhaul opportunities may be limited (Hence ICF's comments that the freight estimate may be conservative). Backhaul opportunities from the USWC to return to the Caribbean or Singapore are also, in ICF's view, limited, but there is insufficient information to assign a credit or penalty. Use of Platt's quotes as a basis is judged a fair assessment.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-21. Ref: Report, pp. xii, 20-27.

"Did ICF calculate likely charges for a Worldscale Premium (up to 40 Worldscale points) for movements to Hawaii due to the limited opportunities for a backhaul?"

Response:

No, ICF did not assess a premium for movements to Hawaii. It is not clear how much of a premium occurs in the base Platt's rates to the West Coast for the backhaul issue.

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-22. Ref: Report, pp. 20-27.

"How many cargoes of light product left Hawaii for the Far East or Caribbean by year for the period 1999-2004? "

Response:

The data ICF examined for exports was from Jan. 2003 to Oct. 2004. Assuming light products include gasoline, naphtha, jet fuel and diesel, the answer is 21 cargoes, primarily naphtha.

Gasoline: 285 Mbbls
Naphtha: 3,776 Mbbls
Jet: 0 Mbbls
Diesel: 0 Mbbls

Gasoline was exported to Japan and Singapore, while Naphtha was exported to Japan, Singapore, and South Korea.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-23. Ref: Report, p. 21 and pp. 20-22, 65.

"ICF states that its freight estimates may be "slightly conservative (i.e., low)." Report at p. 21. Please quantify what an appropriate estimate, i.e., one that is not "slightly conservative" or "low" would be?"

Response:

ICF's freight calculations utilized Platt's freight rate quotes for the Caribbean and Singapore markets to the USWC. Platt's quotes represent known deals done for freight. Some of these may reflect backhaul opportunities from the USWC. The freight adjustment to move gasoline to Hawaii therefore assumes a similar representation of backhauls. While Hawaii typically will export cargoes of naphtha to the Far East, other backhaul opportunities may be limited (Hence ICF's comments that the freight estimate may be conservative). Backhaul opportunities from the USWC to return to the Caribbean or Singapore are also, in ICF's view, limited, but there is insufficient information to assign a credit or penalty. Use of Platt's quotes as a basis is judged a fair assessment.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-24. Ref: Report, p. 21.

"Does the Report mean to recommend that the Hawaii freight costs should be adjusted upwards to an appropriate estimate that is not "slightly conservative" or "low"?"

Response:

No, the Report does not mean to recommend that the Hawaii freight costs should be adjusted upwards to an appropriate estimate that is not "slightly conservative" .

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-25. Ref: Report, pp. 11-15.

"The ICF Report states that Hawaii's gasoline demands have been met primarily by the two refineries in Hawaii, ChevronTexaco's and Tesoro's. "Refinery gasoline production in general meets Hawaii's demands, and imported gasoline cargoes have periodically occurred in the past to cover periods of refinery maintenance, or to create marketing growth opportunities for wholesale marketers." Report at p. 11. At page 12 of the Report, ICF states that it could take up to 4 weeks to receive additional supply from other sources."

a. Please outline ICF's timeline to arrive at a 4 week supply chain for re-supply of gasoline to Hawaii.
    a. Please explain and provide the methodology, data, inputs and calculations used by ICF to derive the 4 weeks needed to receive additional supply from other sources.
b. Are there any conditions where ICF would consider that it may take more than 4 weeks for supply from other sources? If so, please describe such conditions.
    a. Does ICF believe that it may be reasonable to conclude that it could take up to six weeks to receive additional gasoline supply into Oahu?
    b. If no, please explain why not.

Response:

a) There is clearly a range of replenishment time that would apply to Hawaii. The "up to 4 weeks" quoted was in the event of a major disruption, in which case ICF felt that a West Coast or Alaska movement could be made more quickly, with the size of the cargo determined more by equipment availability and supply access than economics. Assuming 7-10 days to arrange a load, 10-11 days to Oahu, and then re-supply to neighbor islands would be about 4 weeks.
b) If re-supply had to come from other markets (Korea, Singapore, USGC, etc), ICF concurs that "up to 6 weeks" would be reasonable.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-26 Ref: Report, pp. 30-34.

"In establishing the margin of 1 cpg above import parity for bulk gasoline sales in Hawaii, please explain the criteria used. Was return on investment one of the factors considered? If not, please explain why not."

Response:

The criteria is that Bulk gasoline sales from refineries usually take place at spot market prices as reported in Platt's or other price reporting services. ICF recommended a 1 cpg margin above import parity to establish a nominal incentive for an importer. Return on investment was not considered.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-27 Ref: Report, pp. 23-25.

"In establishing the weekly price cap calculations for import parity, will adjustments be made to the selected posting in the Far East and Caribbean to account for the market premium or discount? If no, please explain why not."

Response:

No. Platt's pricing is quoted based on deals done in the normal trading windows (time frames) as defined by Platt's. Trades done outside these windows may be done a discounts or premiums to the Platt's quotes for the normal trading windows. (It is possible Tesoro may be referring to premiums or discounts to the NYMEX futures prices. If so, the Platt's numbers would reflect the premiums or discounts to NYMEX prices in the Platt's trading window).

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-28 Ref: Report, pp. 8, 23-25, 76.

"Please explain how the import parity measure will be adjusted to accommodate the cost of purchased ethanol once the ethanol mandate is in effect in April 2006."

Response:

This has not been determined. A general approach would be to modify the baseline source prices for USGC RBOB market prices, develop a Singapore "RBOB" source adjustment, and incorporate the market cost for discretionary ethanol. Input from refiners, marketers and blenders would be needed.

It is not clear to ICF whether there will be sufficient production in Hawaii to be able to meet the mandate without importing cargoes of ethanol. This will be an operational and cost challenge, and may also be a transitional period until Hawaii ethanol production is streamed. It will be difficult for the gas cap legislation to be adjusted for ethanol blending and cost if the ethanol blending process is not stable.

ICF has concerns that the marketers, refiners, and consumers in Hawaii may be approaching a confluence of regulatory actions involving both the gas caps and ethanol which will likely create high business and capital investment uncertainty, as well as possible supply concerns. Frankly, the uncertainty around the costs and ability to initially acquire and blend ethanol from outside Hawaii is a greater challenge and issue than the gas caps. If local production was available to meet demand, the Industry investments and costs would be lower and the interaction less of a concern.

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

B. General reference for Tesoro-IR-29 to Tesoro-IR-43: Report, Chapter 3.0, "Marketing Margins" and Chapter 4.0, "Premium and Midgrade Adjustments." Where not otherwise specified in the information request, with respect to Tesoro-IR-29 to Tesoro-IR-43, the term "margins" means DTW marketing margins and Rack Branded and Unbranded marketing margins; the term "adjustments" refers to DTW and Rack Premium and Midgrade adjustments.

Tesoro-IR-29. Ref: Report, pp. 35, 52.

"In the Rack margins analysis, eight cities, including Phoenix and Seattle, were selected to calculate the rack prices for Unleaded gasoline. However, for Midgrade and Premium adjustments, please explain why Phoenix and Seattle were not selected? "

Response:

Phoenix and Seattle were not selected for Premium and Midgrade adjustments because 1) Platt's doesn't report a Midgrade for Phoenix or Seattle and 2) ICF's review of the Premium margins indicated Phoenix and Seattle were about 25% above other markets. ICF interpreted this as perhaps a higher margin driven by the impact of CARBOB gasoline on the West Coast (which draws premium gasoline components like Alkylate into the CARBOB blend and may raise overall octane costs in those markets).

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-30. Ref: Report, pp. 49-58.

"Since Platt's did not have Midgrade and Premium differential information for adjustments, why was OPIS rack posting not used?"

Response:

Platt's does have a Premium posting. ICF determined to exclude Seattle and Phoenix due to the impact of the West Coast market on the Premium differential to Unleaded.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-31. Ref: Report, pp. 29-58.

"Please explain why the criteria selected by ICF excludes states and cities in the Pacific Northwest, and the cities of Los Angeles, and San Francisco, from the calculations of margins and adjustments, as applicable. In responding to this information request, please identify and quantify the specific criteria applied by ICF in making such exclusion."

Response:

ICF has included Seattle and Phoenix rack margins in the rack analysis. ICF has excluded Los Angeles and SF since the market is primarily CARBOB.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-32. Ref: Report, pp. 29-58.

"Are there markets that could have been chosen by ICF other than those selected for the Report with respect to margins and adjustments? "

a. If yes, please explain why other markets were not selected?
b. Please explain why the Report did not consider all markets in the United States for calculation of margins and adjustments?
c. If no, please explain why no other markets could have been chosen other than those selected for the Report.

Response:

a) Yes. There are other possible markets. Even with Platt's data, some 40 markets report monthly rack prices. Some of these are in markets that are not conventional gasoline. ICF was seeking markets with 1) conventional gasoline and 2) visibility to the supply chain and cost into the location to assess margins as accurately as possible. Consequently, locations which are sourced from the USGC, Chicago, etc plus pipeline tariffs and/or marine costs were reasonable to include.
b) ICF wanted a minimum of 5 cities spread out geographically. Some alternative locations were simply at different points along pipelines (eg Birmingham vs. Atlanta) and ICF desired more geographical spread.
c) ICF concurs there are other alternative locations, but do not believe that the quality of the results would substantially improve.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-33. Ref: Report, pp. 29-58.

"Does ICF maintain that there is only one reporting source that should be used for establishing margins and adjustments? "

a. If yes, please explain why ICF believes that there is only one reporting source that should be used for establishing margins and adjustments.
b. If no, please explain why ICF did not use other potential sources.
c. How much did it cost for ICF to obtain the data used to establish margins and adjustments in the Report?
d. What was ICF's budgeted amount for obtaining the data used to establish margins and adjustments in the Report?
e. Please describe and explain all limitations arising from the budgeted amounts, any expenditure limitations, and any time constraints on ICF's ability to collect and analyze data used to establish margins and adjustments.
   1. But for the limitations set forth in response to Tesoro-IR-33.e., above, are there any other sources of data that ICF would have preferred to use in the Report to establish margins and adjustments?
f. Aside from the use of the applicable reporting services, did ICF conduct an independent study of the gross margins and adjustments in any cities and States in the United States?

Response:

a) ICF did not use one source, since both Platt's and OPIS were used. ICF did prefer to minimize the sources to simplify the contact points and ultimate sources for implementation. This would minimize ongoing PUC and Hawaii taxpayer costs, but ICF found that some data outside Platt's was needed.
b) N/A
c) The project budgeted $6000 for data acquisition. ICF paid Platt's $4200 for data and OPIS $1500 for data. Since a portion of the Platt's data was also utilized on a separate project, ICF was able to reduce the Platt's cost charged to the project to $3200.
d) The project budgeted $6000 for data acquisition.
e) ICF found that Platt's provided far more data than any other service for a reasonable fee. OPIS has better granularity of Rack data, and more locations, however OPIS was far more expensive than Platt's. With an open budget and unlimited time, ICF would have examined the difference in OPIS and Platt's data by city for rack prices, and may have considered Lundberg for DTW prices. ICF believes that the data budget was less of an issue than the time to meet the Legislative commitment, and that the sources used by ICF were reasonable for the needs of the project.
f) ICF did not conduct an independent study of the gross margins and adjustments in any cities and States in the United States other than as reported.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-34. Ref: Report, pp. 35-40.

"What were the criteria used in selecting the eight cities for the Rack margin? Please explain why all city markets west of the Rockies were excluded from consideration."

Response:

ICF was seeking markets with 1) conventional gasoline and 2) visibility to the supply chain and cost into the location to assess margins as accurately as possible. Consequently, locations which are sourced from the USGC, Chicago, etc plus pipeline tariffs and/or marine costs were reasonable to include. Seattle and Phoenix were included in this group of selected cities.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-35. Ref: Report, pp. 40-46.

"Why were the five states, Florida, Georgia, Maine, Michigan and New York, selected as the basis for calculation of the DTW marketing margin? Please explain why all states west of the Rockies were excluded from consideration."

Response:

ICF desired to use locations similar to the rack locations to evaluate DTW margins for consistency. Therefore Florida (Tampa), Georgia (Atlanta), Maine (Portland), New York (Albany) and Michigan (Detroit) were selected. ICF utilized EIA data to evaluate DTW margins because access to DTW prices was not available from Platt's (or OPIS). Lundberg data was far too detailed for overall analytical needs, as well as expensive..

EIA state data for Texas was not considered because PADD 3 markets indicated only about 3% of sales are on a DTW basis. Arizona (Phoenix) and Washington (Seattle) were excluded because the data showed high margin volatility and strained credibility (one was very high; one very low). Refer to Spreadsheet "*DTW Margin Comparisons 3-22-05 v2*".

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-36. Ref: Report, pp. 40-46.

"Since Lundberg has specific markets published, why was Lundberg not used instead of the statewide EIA reports for establishing DTW margins?"

Response:

Lundberg data provided more granularity than needed, and was very expensive. An advantage to the EIA data was that it does report the average numbers at which sales occur. Lundberg would give prices but no actual sales impact on the average price.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-37. Ref: Report, pp. 29-58.

"Please confirm that the Report recommends using the full prior year average price to establish margins and adjustments.'

Response:

ICF confirms that the Report recommends using the full prior year average price to establish margins and adjustments.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-38. Ref: Report, pp. 35-40, 52-54.

'Since OPIS has many more markets published than Platt's, why was OPIS not used to provide a basis for Rack margins and Rack adjustments? "

Response:

There were two reasons OPIS was not used: First, OPIS has many more sites than Platt's, however ICF did not believe that "many more markets" would add to the credibility of the analysis and 2) for the same amount of data, OPIS was significantly more expensive than Platt's.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-39. Ref: Report, pp. 39-40.

"Please confirm that the Report recommends using the full prior year average price to establish the Branded and Unbranded price comparisons."

Response:

ICF confirms that the Report recommends using the full prior year average price to establish the Branded and Unbranded price comparisons.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-40. Ref: Report, p. 68.

"In the Summary of Calculations (pp. 7.2.6, p. 68), the Report mentions using the average prices for each week, ending on Friday, and effective Sunday midnight for prices effective the following week. If pricing errors should occur in any of the publications and sources used for gas cap pricing:"

a. Once invoices are sent to customers, who will be responsible for the cost of reissuing these invoices?

b. Please describe the economic effects of such pricing errors on a market controlled by gasoline price caps.

c. Does the Report contain a mechanism to address pricing errors in publications and sources used for margins and adjustments?
   1. If yes, please describe and explain the mechanism.
   2. If no, please explain why not.

Response:

a) The errors would have to be dealt with the same way they are today with other transactions based on Platt's, OPIS, Argus or other price services. This means the users of the data have to work it out.
b) It is certainly conceivable that errors could be passed on to customers and consumers before being identified. These may not be recoverable if suppliers are artificially held at an incorrect cap.
c) No. ICF does note however that Platt's has indicated to us (email John Kingston/Tom O'Connor) that the 4 key prices used in the weekly calculation have a lower than normal error incidence. Moreover, since the USGC 87 and Singapore 92 price quotes are used in so many contracts, any error is normally identified in about a day and corrected. This in fact may catch most of the limited errors before the weekly calculations are made.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-41. Ref: Report, pp. 49-58.

"Please provide the calculation and breakdown of percentages of Premium and Midgrade gas usage in Hawaii as compared to other areas studied by ICF to reach the recommendations made in the Report. In responding, please provide the calculation and breakdown for these other areas. Did ICF consider if the percentages of each product has an influence on the price differentials between each product: Regular, Midgrade and Premium? If yes, please explain and quantify such influence. If no, please explain why not."

Response:

ICF did not analyze this breakdown compared to the specific Mainland markets used in the study.. Hawaii's premium and midgrade sales mix (as a percent of total gasoline) has been steadily declining, to where premium was about 21% last year. The US premium sales in 2004 were 11%. Hawaii midgrade sales were 7% last year, and U.S. midgrade sales in 2004 were 5%.

The Hawaii midgrade percentage is about 2% higher than the US average. ICF believes the premium and midgrade ratios in some of the markets ICF evaluated were likely higher than the US average, but did not spend any time to verify if they were near Hawaii's level or not.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-42. Ref: Report, pp. 29-58.

"Please explain why ICF did not use the marketing margins methodology for calculating the Premium and Midgrade adjustments."

Response:

ICF did not use the marketing margins methodology for calculating the Premium and Midgrade adjustments. The physical cost to supply gasoline to marketing terminals is essentially identical for regular, midgrade and premium. In ICF's opinion, comparing the spread between premium and regular, and midgrade and regular at the racks, and at the state level for DTW prices, is a more efficient and accurate measure of incremental margin over the unleaded margins.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-43. Ref: Report, pp. 29-48.

"Did the Report consider capital investment costs, i.e., for dealer stations for the DTW channel of trade, in the costing calculations for establishing marketing margins?"

a. If yes, please explain how such capital costs were accounted for in the Report.
b. If no, please explain why not.
c. Did ICF consider the effect of lease rent caps in its Report?
d. If yes, please explain the effect of lease rent caps as factored into the Report.
e. If no, please explain why not.

Response:

ICF's method of analysis was to utilize Mainland margins to assess a range of margins over time for Hawaii i.e. imposing a more competitive marketplace into Hawaii. ICF adjusted for some of Hawaii's geography costs which may impact the DTW channel (eg the incremental trucking adjustments for the neighbor zones). However, ICF did not attempt to determine the overall financial status for the DTW or Rack business based on the recommended price caps. The analysis is margin based, not cost based.

ICF did not adjust margins to account for capital costs. b) Adjustments for capital investment costs can be significantly different from one station to the next, based on dealer & supplier approaches to marketing strategies. In many cases (based on ICF experience), capital investments are made (eg rebuilds, car washes, convenience stores, etc) to gain additional volume and profits, not necessarily to increase prices. The decisions to make capital investments after gas caps are in place would still need to be evaluated based on internal financial criteria.

c) Lease rent caps are a Marketing cost and are not included in the report as noted in the first paragraph above. Based on the sessions in Hawaii, ICF understands that the impact of lease rent caps may represent a fundamental cost that mainland markets may not experience. An adjustment to reflect this may be worthy of consideration, however ICF does not have, and did not receive in the March/April data submissions, sufficient information to assess the relative impact versus Mainland markets.

d) N/A

e) ICF does not have, and did not receive in the March/April data submissions, sufficient information to assess the relative impact versus Mainland markets of rent caps.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

C. General reference for Tesoro-IR-44 to Tesoro-IR-46: Report, Chapter 4.0, "Premium and Midgrade Adjustments."

Tesoro-IR-44. Ref: Report, pp. 49, 54-56.

"What criteria were used to select the six Mainland states, New York, Georgia, Texas, Michigan, Maine and Florida, to determine the DTW Premium and Midgrade gasoline adjustments?"

a. If the characteristics of each grade of gasoline in each of these Mainland states are different, please explain the methodology used to calculate the appropriate price differentials due solely to such differences. No response is necessary if the characteristics of each grade of gasoline in each of these Mainland states are identical to the characteristics of each grade of gasoline in Hawaii.
b. Please explain why Texas is not included in Exhibits 4.7, 4.8, and 4.9.
c. Did the Report analyze the cost structures for each of these six state markets?
d. If so, please describe and quantify the results of that analysis.
e. Please describe any significant similarities and differences from the current cost structure (without price caps) in Hawaii resulting from the Report's analysis.
f. Please provide the data that were used to determine the DTW Premium adjustment for each of the markets used in the Report.
g. Please provide the data that were used to determine the Midgrade adjustment for each of the markets used in the Report.

Response:

The criteria were that ICF wanted to be consistent with the locations used to evaluate base margins for Rack and DTW business. Texas is not included in these margins.

a) Octane characteristics were adjusted from 93 to 92 Rd in each of the states. The method used was to take the 93 vs 87 spread, and multiply by 5/6. The method, while simplistic, reflects a reasonable assessment of the market differential.
b) Texas was excluded because of a very small percent of DTW sales in PADD 3
c) The Report did not analyze the cost structures for each of these six state markets.
d) An analysis of the structure was not done, therefore no data exists.
e) No analysis of market structure in these States versus Hawaii was done.
f) Data is provided in the Spreadsheet "C3.15 DTW Margin Comparisons 3-22-05 v2")
g) Data is provided in the Spreadsheet "C3.15 DTW Margin Comparisons 3-22-05 v2")

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-45. Ref: Report, p. 52.

"What criteria were used to select the six cities, Albany, Atlanta, Dallas, Detroit, Portland (Maine) and Tampa, to determine the Rack Premium and Midgrade gasoline differentials?"

a. If the characteristics of each grade of gasoline in each of these cities are different, please explain the methodology used to calculate the appropriate price differentials due solely to such differences. No response is necessary if the characteristics of each grade of gasoline in each of these cities are identical to the characteristics of each grade of gasoline in Hawaii.

b. Please explain why Dallas is not included in Exhibits 4.4 and 4.6.

c. Did the Report analyze the cost structures for each of these six city markets?

d. If so, please describe and quantify the results of that analysis.

e. Please describe any significant similarities and differences from the current cost structure (without price caps) in Hawaii resulting from the Report's analysis.

f. Please provide the data that were used to determine the Rack Premium adjustment for each of the markets used in the Report.

g. Please provide the data that were used to determine the Rack Midgrade adjustment for each of the markets used in the Report.

Response:

The criteria were that ICF wanted to be consistent with the locations used to evaluate base margins for Rack and DTW business.

a) Octane characteristics were adjusted from 93 to 92 Rd in each of the states. The method used was to take the 93 vs. 87 spread, and multiply by 5/6. The method, while simplistic, reflects a reasonable assessment of the market differential.
b) Dallas was not included because Platt's did not quote a Midgrade price for Dallas.
c) The Report did not analyze the cost structures for each of these six city markets.
d) An analysis of the structure was not done, therefore no data exists.
e) No analysis of market structure in these cities versus Hawaii was done.
f) Data used for Rack Premium adjustments are attached in spreadsheet "C3.9 Rack Margin Comparisons 3-16-05"
g) Data used for Rack Premium adjustments are attached in spreadsheet "C3.9 Rack Margin Comparisons 3-16-05"

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-46. Ref: Report, pp. 49-58.

"Please explain why all markets, whether state or city markets, west of the Rockies were excluded from the Report's consideration for both Rack and DTW Premium and Midgrade differentials?'

Response:

Phoenix and Seattle were not selected for Premium and Midgrade adjustments because 1) Platt's doesn't report a Midgrade for Phoenix or Seattle and 2) ICF's review of the Premium margins indicated Phoenix and Seattle were about 25% above other markets. ICF interpreted this as perhaps a higher margin driven by the impact of CARBOB gasoline on the West Coast (which draws premium gasoline components like Alkylate into the CARBOB blend and may raise overall octane costs in those markets). ICF believed this was a sufficiently defining difference to exclude the locations.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

D. General reference for Tesoro-IR-47 to Tesoro-IR-54: Report, Chapter 5.0, "Documents, Data and Information Needed to Determine Zone Price Adjustments" and Chapter 6.0, "Zone Price Adjustments."

Tesoro-IR-47. Ref: Report, pp. 3, 65-69.

"The ICF Report recommends the use of an industry average cost and recognizes that this "may benefit some suppliers and penalize others, however it will provide incentive for higher cost suppliers to lower their zone supply cost structure." Report at p. 3. If a company is unable to reduce costs sufficiently to average industry costs, does the Report consider what the possible and likely actions would be for such company?"

~~a.~~ How would these actions change or impact the Hawaii market?

b. Please explain how the Report and the gas cap recommendations it contains deals with potential closure of businesses, such as trucking firms or terminal assets.

Response:

The report notes that inability to reduce costs could jeopardize the business for some suppliers and marketers. The report also notes that these cost disadvantages are already present, and not a function of the gas caps being in place. The difference with the gas caps is that some marketers in remote locations may be able to raise prices today and stay in business (because they may be the only station in a region), but the use of averaging of costs in the formula would restrict this option in the future.

a) It is not clear how great the impact will be, or if in fact some costs can be reduced. Should some businesses close, it would increase inconvenience for consumers, and could take some small marketers and retailers out of business.
b) The report and recommendations do not specifically deal with the potential business closures, but did highlight the issue for the PUC to consider.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-48. Ref: Report, p. 61.

"The Report states "Trucking costs were estimated based upon a range of high, low and/or average trucking costs supplied by companies." Without using any confidential information provided by the parties, please explain the methodology and process used by ICF to derive trucking costs for each zone in the Report."

a. Please provide a non-confidential example using the methodology and process utilized by ICF in the Report.

Response:

The methodology on averaging trucking costs is as follows:

As an example, in a given zone with companies A, B, C and D listing trucking costs, ICF evaluated as follows:

Company A: 3.5 cpg (average of all deliveries in the zone)
Company B: 2.5 cpg low; 6.5 cpg high
Company C: 2.0 cpg low; 5.5 cph high
Company D: 3.2 cpg (average of all deliveries)

ICF used a formula based on 80% of the sales in a zone at the "low", and 20% at the "high". Based on the geography and population centers, this seemed a reasonable estimation. The calculation was then simply (A + D + B (0.8*2.5+0.2*6.5) + C (0.8*2.0+0.2*5.5))/4, or 3.17 cpg.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-49. Ref: Report, pp. 60-64.

"How many locations in Hawaii have PUC trucking rates that are higher than the average trucking costs as provided in the Report? What would the possible and likely outcome be for locations that require higher than the average trucking cost to deliver gasoline to them?"

a. In ICF's trucking rates review, please explain the size(s) of deliveries that were used and how they were accounted for in the average trucking costs.
b. The gas cap zone differentials appear to be for full trucks and trailers; did ICF consider how this would impact some customers and suppliers whose loads are less than full trucks and trailers?

Response:

ICF did not assess how many locations in Hawaii have PUC trucking rates above the average trucking costs in the report, but believe there are many.

ICF relied on the data provided by the parties to determine the average trucking rates. The rates may be a mix of full trucks and trailers, as well as smaller trucks or less than full loads.

Some suppliers and customers may be disadvantaged if their supply alternatives require smaller or partially filled trucks, or if they are making normal size deliveries at remote locations. This, as explained in IR-47's response, could jeopardize business.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-50. Ref: Report, pp. 60-64.

"Please explain why there does not appear to be a specific location differential for trucking from Hilo, Hawaii to Kona, Hawaii (Zone 7 to Zone 8, cross-zone trucking) reflecting actual conditions?"

Response:

This supply alternative was not visible to ICF in the analysis. If a cross-zone movement of product is needed due to limited Zone 8 supply capability, and a normal supply route exists from Zone 7, then an adjustment should be considered.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-51. Ref: Report, pp. 59-64.

"Please explain how ICF considered the impact of non-ratable demands on (a) the supply at the terminals, especially the neighbor islands; and (b) barging, trucking and terminalling costs. Please explain how ICF envisions the handling of these zone price adjustments?"

Response:

The concern about the existence and impact of non-ratable demand appears to stem from the issue identified in IR-56, and ICF will answer on that basis. Should non-ratable demand, or supply, occur because consumers or suppliers are attempting to "game" the weekly price system, ICF would suggest that the PUC consider going to daily price caps, not weekly. The mechanism would be relatively easy to implement, and while the administrative costs for the companies would likely increase, as well as the possibility of pricing errors, the gaming would be eliminated.

A change from weekly to daily price caps could be outside the scope of PUC authority, and may require a Legislative action to change.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-52. Ref: Report, pp. 59-64.

"Please explain how fee simple land value is calculated into the industry average costs in the zone adjustment calculations. If not calculated, please explain why not."

Response:

If the fee simple land value is part of the full terminal costs as reported to the PUC in March, then it is included. The terminal cost data provided to ICF was not (in most cases) broken out in that level of detail.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-53. Ref: Report, pp. 59-64.

"How does ICF envision that the capital improvements required by regulations (i.e. ethanol) will be factored into the zone price adjustment?"

Response:

The process in place with the ICF recommendations will capture this incremental cost, on an Industry average basis, over time. As the higher costs of distribution, barging, terminalling, etc. with ethanol are reported in annual zone factor updates, they will be incorporated in the following year's cap.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-54. Ref: Report, pp. 60-64.

"Please explain whether the ICF Report considers and quantifies the impact of long-term (multi-year) agreements for double-hulled barge leases required by regulations in the barging component of the zone pricing adjustment calculations.'

a. If considered, please describe the methodology used in the Report to determine the impact.
b. If not considered, please explain why not.
c. Please provide an example of the barging component using the methodology from the Report.

Response:

As with ethanol distribution costs, the costs associated with double hulled barges would be passed through as part of the barging cost adjustment over time. Please note that without the gas caps in place, there is no assurance that this could be passed on.

N/A

The barging data reported to ICF did not, in almost all cases, delineate sub-categories of cost. It is likely that capital recovery (for new equipment, etc) is part of the current cost structure already.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

E. General reference for Tesoro-IR-55 to Tesoro-IR-64: Report, "Executive Summary" and Chapter 8.0, "Evaluation of Gas Cap Impacts and Other Issues."

Tesoro-IR-55. Ref: Report, p. 68.

"Has ICF begun work on the database tool for housing the gas price cap, referred to at page 68 of the Report? If work has begun, please describe (1) what steps have already taken place (2) what steps still need to take place, and (3) where ICF considers the status of the database tool work to be at the time of its response to this request in relation to completing all such steps."

Response:

ICF is not aware of work being initiated on the Gas Cap Implementation.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-56. Ref: Report, pp. 73-77.

"Has ICF conducted any analysis in preparing the Report regarding the effect on wholesale and consumer buying practices and demand fluctuations that might result from the published price cap in advance of implementation each week?"

a. If yes, what were the conclusions of this analysis?
b. If no, please explain why not.
c. Please explain whether, for purposes of pricing products used in setting price caps, the invoice price was determined based on load time, time of discharge, or some other time calculation.

Response:

a) ICF did not analyze this in the report.
b) Although ICF does agree that some behavior changes may occur on both the demand and supply side, ICF anticipates that monitoring the actions of market participants will mitigate any issues that could impact supply. Significant problems would warrant PUC intervention.
c) The price cap used to govern transactions should be based on the day that the product changes hands from supplier to buyer (i.e. date into truck for rack sales; date into service station for DTW sales)

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-57. **Ref: Report, pp. 65-69.**

"Is ICF aware that the source pricing services are in error at times and that they publish updates and retractions of earlier quotes? How does the Report recommend that the PUC account for errors, updates or retractions in source quotes?"

Response:

ICF is aware that errors occur from Pricing services. We note however that Platt's has indicated to us (email John Kingston/Tom O'Connor) that the 4 key prices used in the weekly calculation have a lower than normal error incidence. Moreover, since the USGC 87 and Singapore 92 price quotes are used in so many contracts, any error is normally identified in about a day and corrected. This in fact may catch most of the limited errors before the weekly calculations are made.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-58. Ref: Report, pp. ii, 11.

"The Report states that its primary focus is to evaluate and recommend changes to the Gas Cap legislation to ensure that the Gas Caps reflect "true competitive market conditions." Please explain what ICF means by the phrase, "true competitive market conditions."

a. In the Report, please identify the statewide markets in the United States that reflect "true competitive market conditions" against which Hawaii is compared? If so, please identify the United States statewide markets where price caps are in place.
b. Are any of the United States statewide markets discussed in the Report, outside of Hawaii, subject to price caps on wholesale gasoline?
c. What would be the impact of a price cap in the Report that has been calculated to produce caps that are too low relative to "true competitive market conditions"?
d. In the Report (page ii), it is stated that "efforts by other jurisdictions to implement caps on gasoline prices have typically failed." What factors does ICF believe caused the previous efforts in other jurisdictions to fail?
e. Of the factors identified in Tesoro-IR-58.d. above, please comment whether these factors would apply in the Hawaii market.

Response:

True competitive market conditions means that, to the degree possible, Hawaii's Gas Caps should be determined based on visible baseline markets for alternative supply sources, with market based freight (location) adjustments, zone adjustments to reflect cost of supply to neighbor islands, and marketing margins which provide a reasonable profit margin for marketers.

a) Many markets on the mainland reflect a true competitive market condition. Margins can be determined based on visible (published) source prices, at which companies can buy or sell product, identifiable transportation costs to terminals, and visible data on rack pricing through published sources. None of these markets have gas caps in place.
b) None of the United States statewide markets discussed in the Report, outside of Hawaii, are subject to price caps on wholesale gasoline
c) The impact would be that marketing companies would have less of a margin to operate their business than needed to remain profitable and financially sound. While other companies could acquire those assets and attempt to reduce costs further, the cap could well preclude any company from being profitable. (Again, assuming that the cap is set too low).
d) The Stillwater report (pages 98-114) discusses this topic and is the basis for ICF's comment. The report indicates that the Hawaii market satisfies 3 of the 4 criteria noted in a referenced study in which price controls could "contribute". The report also discusses the results of controls in several markets, most notably Australia and Canada. Some of the effects seen include:
    a. Tendency to price at the cap
    b. Complex to administer

c. Increased volatility in prices (due to link to markets which move daily)
d. Shortages at times
e. Propensity to "game" the system due to price lags

e) It is likely that some of the same issues will occur in Hawaii, in ICF;'s opinion. The report also notes that transparency of the price information to consumers, and watchdog schemes "can be as effective or more so than price caps". ICF tends to agree with these assessments.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-59. Ref: Report, p. 15.

"The Report states that the components of the supply chain, as outlined in legislation, were examined to "validate or enhance factors or assumptions detailed in the Legislation."

a. Please explain the methodology used by ICF to validate or invalidate the baseline factor detailed in the Legislation. Please provide all data and documents, not produced by the parties, used in such validation or invalidation.

b. Please explain the methodology used by ICF to validate or invalidate the location adjustment factor detailed in the Legislation. Please provide all data and documents, not produced by the parties, used in such validation or invalidation.

c. Please explain the methodology used by ICF to validate or invalidate the marketing margin factor detailed in the Legislation. Please provide all data and documents, not produced by the parties, used in such validation or invalidation.

d. Please explain the methodology used by ICF to validate or invalidate the mid-grade adjustment factor detailed in the Legislation. Please provide all data and documents, not produced by the parties, used in such validation or invalidation.

e. Please explain the methodology used by ICF to validate or invalidate the Premium adjustment factor detailed in the Legislation. Please provide all data and documents, not produced by the parties, used in such validation or invalidation.

Response:

a) ICF's evaluation of the baseline factor as detailed in the Legislation was done by a historical analysis of the OPIS data as defined in the Legislation. ICF's opinion of the baseline sources in the Legislation was that it appeared inappropriate to be basing the Hawaii source price on locations which have been, and will continue to be, importing significant quantities of gasoline.

b) The location adjustment factor proposed b the Legislation (4 cpg) appeared extraordinarily low when compared to ICF personnel's experience in costs to move product from the USGC to the USWC, and obviously Hawaii would be greater. ICF's thinking was more like 10 cpg. ICF sought published historical data to demonstrate this, and found that there is nothing published by any major pricing service for US Flag vessels. ICF was able to get some quarterly data from a marine company, which was used in Exhibit 2.5. The substantial difference from the Legislated location adjustment provided validation that the numbers needed to be reworked.

   ICF also note that the use of the Caribbean as a source, as opposed to USGC, not only reflects a more logical export market basis, but also enabled ICF to rely on a published freight market for foreign flag vessels. Given the variability of freight costs over time, it appeared in the interest of the "true competitive market conditions" that freight could not be a fixed number.

c) There were several concerns about the marketing margin factor. One, there was no documentation on where it came from, or for what class of trade it applied to. Since there are multiple levels of wholesale trade, often in series, it was unclear to ICF what the 18 cpg was intended to limit. ICF therefore elected to review and evaluate caps for several layers of wholesale trade. These margins and the methodology are detailed in Section 3 of ICF's report.

d) (and e) Both the Midgrade and premium margins were validated and minor changes recommended based on ICF's review of margins in Mainland locations for various classes of trade.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-60. Ref: Report, p. 65.

"The Report states that the implementation and tracking of Gas Caps is a process that requires a high level of data integrity, security of information, and visibility so that consumers, regulators, and industry representatives have confidence that the calculations, compliance checks, and reporting are accurate."

a. Please explain what the Report means when it refers to a high level of data integrity. What safeguards for data integrity does the Report contemplate?
b. Please explain what the Report means when it refers to a high level of security of information. What safeguards for security of information does the Report contemplate?
c. Please explain what the Report means when it refers to a high level of visibility.
d. Did ICF consider the use of a customer exception report function or complaint process instead of the data collection process recommended in the Report?
e. Please explain why ICF is recommending a data collection system?
f. What are the estimated costs of implementation and ongoing administration of the monitoring and reporting system recommended in the Report?

Response:

a) The data integrity means that the information used to calculate the weekly price caps needs to come from quality market price providers. In the case of both Platt's and OPIS, both of these services have been Industry benchmarks for many years. Both also have been responsive when corrections are necessary, and have taken steps to improve the quality of their price quotes in recent years. The report did not contemplate specific integrity assurance safeguards.
b) The process suggested by ICF in the report would develop an Access database for each party, which would be accessible to only those parties' people. When data is entered, it will be pulled through the PUC website into a separate database in the Master PUC database. These data will be compared to zone gas caps for compliance. All data from one party will remain together and not be accessible with other company data. Access to the system would be limited to a very few PUC employees, and ICF recommends a separate server. Specific safeguards would need to be developed in the implementation.
c) ICF believes that publishing the specific price caps for each of the zones will assist the public and PUC in improving the transparency of the gasoline price levels in Hawaii. ICF believes that the increased transparency of price which became available after the Legislation adopted the current baseline, freight, and margin factors has assisted in bringing the Hawaii wholesale prices more in line with the calculated gas caps in the period from late 2003 (ICF Exhibits 3.19 and 3.20). The "visibility" comment does not mean that ICF believes specific transaction information should be made public.
d) ICF considered the option of having the buyer report problems, if the buyer felt they were being charged above the published cap. This method could work, but puts the responsibility on the buyer who may feel uncomfortable reporting the violation since they would be creating problems for their primary supply provider. ICF believes the data collection system provides the most thorough method to assure compliance.

e) ICF has advised the PUC on the potential cost of a system to do what is recommended in the report. Since the PUC may or may not decide to adopt ICF's recommendation, the exact cost exposure is not clear. ICF believes a system which can collect data from the parties and automate reporting of violations would save manpower costs for the PUC versus any other scenario. Parties' would have the benefit of an Access database with all their Hawaii transactions in one location, and ICF thinks it may be possible to feed the Hawaii transaction data from the Parties SAP (or other) accounting systems directly into the Parties' Access database to minimize data entry. Smaller companies would have many fewer transactions and the automated system may not be much better than manual entry of transaction data.

ICF stated in the meetings with the Legislature that the cost of the system could be roughly $300K. ICF thinks this is a maximum, but at this point do not know exactly how the PUC will proceed.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-61. Ref: Report, pp. 29-58.

"To the extent not already provided in response to a previous question, please provide a copy of all source material, documents, data, and other inputs used by ICF, including, but not limited to, source material, documents, data and other inputs from Platt's, OPIS, and EIA that were used in the Report to calculate the marketing margins and Premium and Midgrade adjustments. Please provide such source material, documents, data and other inputs in a retrievable electronic or computerized storage format if available. "

a. Please provide the calculations and formula and all inputs used to calculate the marketing margins and Premium and Midgrade adjustments.
b. Please confirm the marketing margins and Premium and Midgrade adjustments, and any changes thereto, being recommended in the Report for the implementation date of September 1, 2005.

Response:

All data and spreadsheets are provided in accompanying electronic folders, with a list of folders and spreadsheets included. Formulas are located in the spreadsheets. The only changes that ICF are currently recommending from the report are changes to correct the inconsistent rounding of Premium and Midgrade margins as follows:

Exhibit 4.11 corrected: (Attached)

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

ATTACHMENT TO IR-61

EXHIBIT 4.11: MARKETING MARGIN RECOMMENDATIONS, CPG 2004 PRICE ADJUSTMENT VS. BASELINE IMPORT PARITY

	UNLEADED	PREMIUM	MIDGRADE
DTW	15.0	UNLD + 10.1	UNLD + 6.4
Rack, Branded	6.7	UNLD + 9.2	UNLD + 4.2
Rack, Unbranded	9.7	UNLD + 9.2	UNLD + 4.2
Bulk	1.0	UNLD + 6.2	UNLD + 2.0
486H-13 Factors	18.0	UNLD + 9.0	UNLD + 5.0
Basis: 2004 Analysis of Platt's wholesale rack prices, selected US locations, OPIS Branded/Unbranded spread in similar locations, and Platt's spot market pricing, published pipeline tariffs, and EIA DTW data.			

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-62. Ref: Report, pp. 17-28.

"To the extent not already provided in response to a previous question, please provide a copy of all source material, documents, data, and other inputs used by ICF in the Report, including, but not limited to, source material, documents, data and other inputs from Platt's, OPIS, and EIA, to calculate the Baseline (Source) Price. Please provide such source material, documents, data and other inputs in a retrievable electronic or computerized storage format if available."

a. Please provide the calculations and formulae and all inputs used to calculate the Baseline (Source) Price.
b. Please confirm the factors for the Baseline (Source) Price, and any changes thereto, being recommended in the Report for the implementation date of September 1, 2005.

Response:

a) These data are located in spreadsheets in accompanying electronic folders. The document included "List of Files in Folders" identifies the files in each category to simplify accessing.
b) ICF confirms the factors for the Baseline (Source) Price recommended in the Report for the implementation date of September 1, 2005.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-63. Ref: Report, pp. 17-28.

"To the extent not already provided in response to a previous question, please provide a copy of all source material, documents, data, and other inputs used by ICF in the Report, including, but not limited to, source material, documents, data and other inputs from Platt's, OPIS, and EIA, to calculate the Freight (Location Adjustment) Cost. Please provide such source material, documents, data and other inputs in a retrievable electronic or computerized storage format if available."

a. Please provide the calculations and formulae and all inputs used to calculate the Freight (Location Adjustment) Cost.
b. Please confirm the factors for Freight (Location Adjustment) Cost, and any changes thereto, being recommended in the Report for the implementation date of September 1, 2005.

Response:

a) These data are located in spreadsheets in accompanying electronic folders. The document included "List of Files in Folders" identifies the files in each category to simplify accessing.
b) ICF confirms the factors for Freight (Location Adjustment) Cost being recommended in the Report for the implementation date of September 1, 2005.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO TESORO HAWAII CORPORATION INFORMATION REQUESTS

Docket #05-0002

Tesoro-IR-64. Ref: Report, pp. 59-64.

"To the extent not already provided in response to a previous question, please provide copies of all source material, documents, data, and other inputs used by ICF in the Report, including, but not limited to, source material, documents, data and other inputs from Platt's OPIS, and EIA, other than confidential information provided by the parties, to calculate the Zone Price adjustments. Please provide such source material, documents, data and other inputs in a retrievable electronic or computerized storage format if available."

a. Please provide the calculations and formulae and all inputs used to calculate the Zone Price adjustments.
b. Please confirm the Zone Price adjustments, and any changes thereto, being recommended in the Report for the implementation date of September 1, 2005.

Response:

a) These data are located in redacted spreadsheets provided to the Public Utilities Commission, Consumer Advocate, and each party (with their respective data).
b) ICF confirms the Zone Price adjustments being recommended in the Report for the implementation date of September 1, 2005

Sponsor: Thomas W. O'Connor

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Responses to Information Requests upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DIVISION OF CONSUMER ADVOCACY
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
P. O. Box 541
Honolulu, HI 96809

MICHAEL H. LAU, ESQ.
KENT D. MORIHARA, ESQ.
ISHIKAWA MORIHARA LAU & FONG LLP
841 Bishop Street, Suite 400
Honolulu, HI 96813

CRAIG I. NAKANISHI, ESQ.
RUSH MOORE LLP
737 Bishop Street, Suite 2400
Honolulu, HI 96813

CLIFFORD K. HIGA, ESQ.
BRUCE NAKAMURA, ESQ.
KOBAYASHI, SUGITA & GODA
First Hawaiian Center
999 Bishop Street, Suite 2600
Honolulu, HI 96813

KELLY G. LAPORTE, ESQ.
MARC E. ROUSSEAU, ESQ.
CADES SCHUTTE LLP
1000 Bishop Street, Suite 1200
Honolulu, HI 96813

Kevin M. Katsura

DATED: June 17, 2005